

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01 PRS-01
/097 W

----- 100703 /14

R 230057Z DEC 76
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 1177

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EO 11652: N/A
TAGS: ENRG,KS
SUBJ: ROK REACTIONS TO OPEC PRICE INCREASES

REF: SEOUL 9198

1. ROKG HAS TAKEN THE INCREASE IN CRUDE PRICES CALMLY SINCE A MINIMUM OF 10 PERCENT HAD BEEN EXPECTED FOR SOME TIME (SEE REFTEL). KOREAN OFFICIALS HAD PREVIOUSLY NOTED THAT OIL IMPORTS INTO KOREA ARE HIGHLY PRICE INELASTIC AND EXPECT LITTLE CHANGE IN REQUIREMENTS AS RESULT OF CRUDE PRICE INCREASES. ROK REVISED ENERGY SUPPLY-DEMAND CALCULATIONS FOR 1977 CALL FOR IMPORTS OF ABOUT 155 MILLION BARRELS OF CRUDE WITH TOTAL IMPORT BILL CALCULATED AT \$1.9 BILLION, COMPARED TO \$1.5 BILLION IN 1976. MAIN CONCERNS APPEAR TO BE INFLATIONARY EFFECTS (ESTIMATED CLOSE TO 2 PERCENT INCREASE IN DOMESTIC WHOLESALE PRICE INDEX), AND POSSIBLE ADVERSE EFFECTS IN EXPORT MARKETS BY REDUCTION OF DEMAND ABROAD.

2. IN EARLY NOVEMBER THE THREE JOINT VENTURE OIL
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REFINERIES HAD BEEN "REQUESTED" TO MAXIMIZE IMPORTS FOR STORAGE. A BANK OF KOREA OFFICIAL HAS CONFIRMED TO EMBOFF THAT THE LARGE JUMP IN IMPORT LICENSES RECORDED IN NOVEMBER WAS FOR CRUDE. KOREA IS EXPECTED TO HAVE ABOUT A SIXTY DAY SUPPLY IN STORAGE BY THE END OF THE YEAR. CONSEQUENTLY, WE EXPECT

PRICE INCREASES WILL NOT BE PERMITTED UNTIL ABOUT MARCH 1977. DIRECTOR OF THE BUREAU FOR ENERGY DEVELOPMENT, HUH NAM-YOON, INFORMED EMBASSY OFFICER THAT DOMESTIC EX-REFINERY PRICE INCREASES FOR PETROLEUM PRODUCTS WOULD PROBABLY BE HELD TO AN AVERAGE OF 5 PERCENT.

3. A TWO-TIERED OIL PRICE PRESENTS SOME ADMINISTRATIVE PROBLEMS AS LONG TERM SUPPLY CONTRACTS WITH INTERNATIONAL OIL COMPANIES PREVENT A SHIFT OF SOURCING. THIS HAS BEEN A BONE OF CONTENTION WITH THE MAJOR OIL FIRMS AND COULD BECOME MORE ACUTE AS A RESULT OF THE PRICE DIFFERENTIALS. IN THE BEST POSITION IS THE HONAM OIL REFINERY (CALTEX, 160 THOUSAND BARRELS A DAY) WHICH IS SUPPLIED FROM SAUDI ARABIA. GULF OIL'S KOCO REFINERY (215 THOUSAND BARRELS A DAY), HOWEVER, IS COMPLETELY TIED IN WITH KUWAIT WHILE DYUNG IN (UNION OIL - 60 THOUSAND BARRELS A DAY) IMPORTS FROM A VARIETY OF SOURCES. UNDER PRESENT CONTRACT ARRANGEMENTS, HONAM AND KYUNG IN CAN IMPORT UP TO 20 PERCENT OF REQUIREMENTS FROM OTHER SUPPLIERS. KOCO HAS NO LEEWAY.

4. ROKG HAS NOT YET DETERMINED HOW TO DEAL WITH THIS PROBLEM. POSSIBILITY OF DOMESTIC DISTRIBUTION MONOPOLY OWNED BY THE GOVERNMENT IS ONE POSSIBILITY WHICH HAS BEEN SUGGESTED. MCI OFFICIALS SAYS THIS IDEA HAS BEEN DISCUSSED FOR THE PAST THREE YEARS, BUT NO DECISION IS LIKELY IN THE IMMEDIATE FUTURE. ANOTHER POSSIBILITY IS TO PRESSURE THE INTERNATIONAL COMPANIES (PRINCIPALLY LIMITED OFFICIAL USE

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GULF) TO AMEND CONTRACTS TO PERMIT MORE FAVORABLE SUPPLY SOURCES. AS NOTED ABOVE, STORAGE POLICY HAS GIVEN GOVERNMENT TIME TO ADJUST AND FORMULATE NEW POLICIES.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, MINISTERIAL MEETINGS, PRICES, GOVERNMENT REACTIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SEOUL10113
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760470-0773
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761216/aaaaanwb.tel
Line Count: 102
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 SEOUL 9198
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 01 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01 JUN 2004 by ShawDG>; APPROVED <30 SEP 2004 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ROK REACTIONS TO OPEC PRICE INCREASES
TAGS: ENRG, KS, OPEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006